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SENSITIVE
SIPDIS

STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER

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BEXP, KBIO, KIPR, KWMN, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
APRIL 20 TO APRIL 24, 2009

¶1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of April 20-24, 2009, including the
following:

- India's Outward FDI Plans Up, But Actual Flows Down
- RBI Cuts Interest Rates In Its Monetary Policy
-And Lowers Growth Estimates
- Retail Food Inflation Still High
- India Among World's Top Manufacturers
- U.S. Specialty Retailer Discusses Doing
Business with Indian Suppliers

India's Outward FDI Plans Up, But Actual Flows Down

¶2. (U) The Reserve Bank of India's (RBI) data reveals that the
government cleared about 2828 proposals worth \$16.6 billion for
investments abroad by Indian companies in joint ventures and wholly
owned subsidiaries during the first nine months (April-December
2008) of FY 2008-09, versus 1595 proposals worth \$18.4 billion
cleared during April-December 2007. The number of proposals
recorded a rise of 77 percent over the previous year (despite the
global financial crisis) whereas the magnitude
of investment proposals indicate a fall of 11 percent. The
manufacturing sector accounted for 57 percent of the investment
proposals, followed by non-financial services at 9 percent, trading
at 6 percent and the balance in "others" category such as real
estate, films and oil exploration. During the period under review,
Netherlands, Singapore and the UK together accounted for 54 percent
of the proposals for outward FDI of \$5 million and above. Further,
the RBI data shows that the actual outward FDI in joint ventures and
wholly owned subsidiaries during the first three quarters of FY
2008-09 stood at \$11.3 billion, resulting in a drop of 15 percent
over the investment of \$13.3 billion made during the same period of
the previous year. About 79 percent of the investments were in the
form of equity and the remaining 21 percent was contributed by
loans.

RBI Cuts Interest Rates In Its Monetary Policy

¶3. (U) The Reserve Bank of India (RBI) in its annual monetary policy review on April 21 cut its benchmark lending and borrowing rates by 25 basis points each. The repo rate (the rate that banks pay on funds borrowed by the RBI) has been revised to 4.75 percent and the reverse repo rate (the rate RBI pays to banks on the funds parked with it) now stands at 3.25 percent. The policy review, noting that RBI's rates have come down amidst a significant increase in liquidity, but that banks have been slow to follow, exhorted banks to lower their commercial lending rates.

¶4. (U) As a response, ICICI Bank reduced its benchmark prime lending rate to 16.25 percent and deposit rates by 25-50 basis points with effect from April 24. HDFC Bank also lowered its deposit rates. Leading public sector banks such as State Bank of India, Canara Bank and Indian Bank are expected to cut rates in the coming weeks. However, as banks are saddled with high cost deposits, lending rates may only soften gradually as the deposits mature over the next three to four months.

¶5. (SBU) Comment: The cuts surprised some market analysts, as the RBI's most recent rate cuts have been done outside of scheduled policy reviews. Citi still expects an additional 50 to 75 basis point cut in the coming months. Other economists, however, viewed the very modest 25 basis point reduction as a signal from the central bank that it was going to move very slowly on more rate cuts, given the measures it has already taken to date and the timelag in monetary policy effect. End comment.

.....And Lowers Growth Estimates

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¶6. (U) The RBI in its policy review also lowered its estimate of GDP growth for FY 2008-09 to the range of 6.5-6.7 percent, against the Central Statistical Organization's estimate of 7 percent. The central bank forecasts GDP growth for FY 2009-10 to be around 6 percent. The RBI said that any upturn in the growth momentum is unlikely in view of the projected fall in global demand during 2009. The median forecast by the professional forecasters survey done by the RBI expects real GDP to grow by 5.7 percent. The IMF has taken a conservative view in its most recent downgrade and has scaled down India's growth projections to 4.5 percent in 2009 and expects the economy to recover to 5.6 percent in 2010. The slowdown, according to the IMF, is due to weaker investment, reflecting tighter financing conditions and a turn in the domestic credit cycle.

¶7. (U) Meanwhile, the RBI put on hold the review of the second phase of the roadmap to increase foreign banks' presence in India and has decided to continue with the current policy and procedures for governing the presence of foreign banks in India. The policy review was due for April 2009 but the RBI wants to wait until there is greater stability in the global financial markets and "shared understanding on the architecture of regulation" around the world.

Retail Food Inflation Still High

¶8. (U) Annual headline inflation measured by the wholesale price index (WPI) rose by 0.26 percent for the week ended April 11 versus 0.18 percent for the previous week. It was 7.89 percent in the corresponding week a year earlier. Though the inflation rate showed an upward move, RBI Governor Subbarao in its annual review said that WPI inflation would enter into a negative territory for only a brief period in the early part of FY 2009-10 - on a year-on-year basis, the central bank projects inflation to be around 4 percent by end-March 2010. Meanwhile, consumer prices of essential commodities such as cereals, vegetables pulses and sugar continue to remain high. There is some expectation that, given the base effect and new crop coming in, that the predicted near-normal monsoons will result in the CPI moderating to 5-6 percent levels in the coming months. (Note: Food articles comprise 14 percent of the WPI but their weightage in the CPI is 57 percent. End note.)

India Among World's Top Manufacturers

¶9. (U) The latest edition of the International Yearbook of Industrial Statistics, released by the United Nations Industrial Development Organization (UNIDO), highlighted that the developing world's contribution to value-added manufacturing output has almost doubled since 1990. UNIDO attributed this to the relocation of production bases and outsourcing of services from developed countries. During this 18 year span, the developed countries have achieved a 30% increase in their cumulative manufacturing output, of which Asian countries accounted for nearly 75% of the total manufacturing output. China alone produced 42% of this output. For India, the growth rate of manufacturing increased from 6.9% percent in 2000 to 12.3% in 2007, which comprised nearly 15% of its gross domestic product (GDP). According to the UNIDO report, India now ranks among the top 12 producers in the world in manufacturing value-added. As for specific sectors, India's manufacturing output is ranked fourth in textiles; fifth in electrical machinery and apparatus; sixth in the basic metals category; seventh in chemicals; and twelfth in machinery and equipment and motor vehicles.

U.S. Specialty Retailer Discusses Doing
Business with Indian Suppliers

¶10. (SBU) In an interaction with Embassy staff, the CEO of Cost Plus World Market ("Cost Plus"), a U.S. home goods retailer with about \$1 billion in annual revenues, discussed the impact of the recession on its procurement of Indian handicrafts for their specialty stores in the U.S. While the company's total worldwide

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purchases for last year dropped by 48 percent, Indian suppliers to Cost Plus only witnessed a 12 percent cut in orders. Indian handicrafts, including jewelry items, textiles, brass and pottery items, and floor coverings, account for about 50 percent of Cost Plus's total product mix. According to retail chain representatives, Indian market prices continue to be competitive and the market for Indian artisan crafts is growing. Cost Plus sources goods from a total of 50 countries, including China, from which Cost Plus sources mass-produced products in order to appeal to more cost-conscious U.S. consumers.

¶11. (SBU) Although Cost Plus has worked with several of its vendors for as long as 20 years, representatives stated that it is a continuing challenge to educate vendors on the requirements and standards that must be met to export goods to the U.S. Since many of the Indian handicraft suppliers are cottage or home-based units, the vendors often have difficulties meeting rising U.S. standards for quality control. Cost Plus representatives specifically cited that suppliers from China and India are struggling to meet new standards set by Proposition 65 in California. Credit freezes have also presented a challenge to doing business in India. Cost Plus representatives noted that their suppliers have recently experienced difficulty acquiring packing credit from banks supported by the Export Credit Guarantee Corporation (ECGC), an agency established by GOI which for makes credit and insurance available for exporters. The Cost Plus representatives hoped to address this issue with G.K. Pillai, Secretary of Commerce, during their visit in New Delhi.

¶12. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

BURLEIGH